Edgcumbe, Edward
Robert Pearce

A letter to the Right
Honourable the Prime...

London

[1894?]

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THE SILVER QUESTION.

TWOPENCE.

A Letter

TO

THE RIGHT HONOURABLE

THE PRIME MINISTER:

CONCERNING THE EVILS ARISING FROM

TRADE BY BARTER,

DUE TO

The Loss of an Universal Medium of Currency,

BY

E. R. PEARCE EDGCUMBE,

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"A TRUE PRINCIPLE, if adhered to, has a self-adjusting power; a false one requires constant bolstering, and every quack has his nostrum."

WALKER'S ORIGINAL, No. 16.

THE SILVER QUESTION.

THE SILVER QUESTION.

My Lord,

An universal medium of currency wanted.

1.—The responsible situation which you fill, and the importance of the subject of the want of an universal medium of currency will, I trust, be a sufficient apology for my addressing this letter to you. I do not propose to support the opinions I have formed by subtle arguments; my object is rather to treat simply and upon broad general principles a question, in which the interests of all within the Empire are deeply concerned.

Gold and silver the only convenient currency.

2.—In dealing with the subject of the need of a currency common to the whole world, it is necessary to refer very briefly to a few general principles. The first general principle is, that it matters not what substance is selected as the medium of circulation. One substance is as good as another for the purpose of measuring the value of other commodities. But, general as this principle is, it is subject to severe limitations, for a useful medium of circulation must *(a)* possess intrinsic value, *(b)* be easily divisible, and *(c)* must not deteriorate by keeping. Gold and silver best meet these three requirements. Indeed they possess these three qualifications in such a superlative degree that they have been fixed upon by the tacit concurrence of all nations—save a few savage tribes of whom we need take no account—to serve as circulating mediums. Of the two metals—gold and silver—gold possesses the greater intrinsic value, and silver the greater divisibility. So that in making purchase of a match-box, a glass of ale, or a cigar, it would be impossible to pay in gold, except in so minute a coin that it would be a constant trouble to handle. So far then as the medium of circulation is concerned, we may rest satisfied, that it must be either gold or silver, or both. We need to consider no other metal.

A single standard better than a double standard.

3.—The next general principle laid down by writers upon Economics, is, that a single standard of currency is better than a double standard. This is the principle which has led us almost unconsciously to the fatal doctrine, that it is better for the world to have no common currency than one based upon a double standard: in other words, that it is better to carry on a vast portion of our trade by barter, rather than by means of a currency based upon a double standard. It is worthy of careful notice that Mr. Mill, writing at an earlier period than Mr. Fawcett, condemns a double standard of currency, in less unqualified terms. Mr. Mill, indeed, dismissed the idea of a double standard almost with contempt, saying, "a double standard is still occasionally brought forward by here and there a writer or orator." Mr. Fawcett, writing nearly a generation later, said, "various reasons will prove that a double standard is extremely undesirable." These utterances are the framework of the citadel within which the supporters of a single standard of currency have sheltered themselves from attack, and led us to accept as a consequent proposition—though no such proposition has ever been laid down by recognised writers on Economics—that no common currency is better than a currency based upon a double standard, in short, that *trade by barter, is better than trade carried on by means of a double standard.*

The whole world now one Emporium,

4.—Both Mr. Mill and Mr. Fawcett wrote when the International trade of the world was small by comparison with the International trade of to-day. Mr. Mill wrote his "Political Economy" just half-a-century ago; Mr. Fawcett published his more than a generation back. Since even the time when Mr. Fawcett wrote, vast changes have taken place. Steamships, railroads, and telegraphs have almost overcome the difficulties of International communication and of transport, while whole schedules of duties, formerly prohibitive, have been removed or reduced. As compared with forty or fifty years ago, International trade can—so far as the difficulties of communication are concerned—go on almost unchecked by racial or political considerations. But when every effort has been put forward to facilitate International trade, the world as a whole, finds itself hampered by the loss of a common medium of currency.

yet, one half the world has to trade with the other half by barter.

5.—No one, I presume, would deny that a single standard of currency is better than a double standard, provided one standard of currency for the whole world were attainable. If we had only the United Kingdom to think of, we should require nothing better than a gold currency. Nor should we need anything better if all the world had gold for its sole standard of currency. Unfortunately, all the world has not gold for its standard of currency, nor is there any likelihood of gold becoming the common currency of the world, for the sufficient reason that there is not enough of it. When we look beyond our own shores, we find that nearly half the population of the world has gold for its standard of currency, while the other half of the world, and in point of numbers the larger half of the world, has silver for its standard of currency. So that when the merchants of a country with a gold currency, transact business with the merchants of a country with a silver currency, they have no means of knowing what prices they are getting for their produce, until they have gone to the bullion merchant and exchanged the gold they have received for their produce into silver, or *vice versa*. Herein lies the whole difficulty of the situation. One half of the world has gold, while the other half of the world has silver, for its standard of currency, but the world, taken as a whole, has since 1873, been absolutely without a common medium of circulation, consequently a vast portion of its trade can only be carried on by barter.

The universal medium of currency lost in 1873, when the Exchange Offices closed.

6.—It is necessary here to refer briefly to the position of affairs before 1873. Before that time the world did possess in effect a common medium of exchange in the form of a double standard of currency maintained by the Countries of the Latin Union and the United States. In those countries silver could always be exchanged for gold and gold for silver, in the ratio of 15½-16 ounces for one ounce. The result was that these countries acted as a huge Exchange Office for the whole world. If English merchants sold goods to Russia, or India, or China, and received a mass of silver in payment, they knew exactly what they were getting, for they could obtain one ounce of gold for every 15½ ounces of silver in any Country of the Latin Union. For 200 years, previous to 1873, gold and silver were interchangeable at these relative rates and no difficulties were encountered. Even when the gold discoveries were made in Australia 40 years ago, and the annual out-put of gold sprang at a bound from some twenty million sterling to some forty million sterling, no strain was felt in the monetary markets, and the interchange of the two metals at the old rates went on without any difficulty. But suddenly after the great war of 1870, Germany found herself, while the war indemnity was pouring in from France, rich in the precious metals, and her statesmen were seized with the idea of giving up their standard of silver currency, and of adopting gold as their sole medium of currency. The abandonment of silver by Germany threw a severe strain upon France and the countries of the Latin Union, and as France was naturally

unwilling to help what appeared to be the interests of Germany, she too abandoned silver as legal tender in 1873. From that moment and for the first time, the world was without a common medium of circulation, the great Exchange Offices of the world were closed, gold and silver could no longer be exchanged at a fixed rate, and the most violent disturbances to trade have ensued. The result is that the relative values of silver and gold, which for two centuries remained about 15½ to 1, have in only 20 years diverged to the extent of nearly 35 to 1.

Rise in value of gold and fall in silver, the result of demonetization of silver.

7.—Why has the relative value of the two metals changed so greatly since 1873? Speaking broadly, it is due to the demonetization of silver, which has enhanced the value of gold and lowered the value of silver—the lowering of the value of silver being accentuated by its increased out-put. While silver has fallen gold has risen, for it is not silver alone that has fallen in price, but commodities generally, showing that the additional demands made upon gold for the purposes of currency have greatly enhanced its purchasing power. The best opinion seems to be that while silver has declined in value some 33 per cent., gold has risen in value 50 per cent. Some great authorities have denied that gold has risen in value, or risen to any appreciable extent. If this be true, gold must differ in an extraordinary way from every other known commodity. Forty years ago the annual out-put of gold was £36,000,000, to-day it is about £24,000,000. The Gold and Silver Commission of 1888 (p. 11) reports, that Germany alone had subtracted 80 millions sterling from the stock of gold currency held by the Gold Standard countries, other countries had taken 25 millions, and Austria is now taking a prodigious sum. Is it possible seriously to believe, that while the annual out-put of gold has decreased considerably and the population of the world has increased and the demands made upon gold for the purposes of the arts and currency have augmented largely, the purchasing value of gold has remained stationary? It cannot be. Gold is affected by the same laws as other commodities, and is equally subject in its intrinsic value to the law of supply and demand.

Proof of rise in value of gold.

A single standard of currency only attainable in silver.

8.—Every one, I imagine, is prepared to fully accept the principle that a single standard of currency is better than a double standard. But is it possible to obtain a single universal gold standard. As to the prospect of so happy a solution of the difficulty I need only say, that in the recent monetary conferences not a single member ventured to suggest this. Speaking of such a suggestion in 1878, Mr. Goschen said the adoption of a single gold standard would be "productive of the greatest disasters." It would be possible to have *a single currency of silver* for the whole world, but such mountains of prejudice would have to be traversed, that the idea is as hopeless for all practical purposes as that of a single gold currency. If there were gold enough to provide a single standard of circulation for the whole world, one would not dream of suggesting a double standard, but there is no hope, so far as one can see, of such being the case. Are we then, because it is better to have a single standard of currency than a double standard, to refuse to have any common medium of currency for the world, because we cannot get what is ideally the best? A single standard of currency is unquestionably better than a double standard, but assuredly a double standard is better than trade by barter with no common medium of currency at all.

Mono-metallists are ally Trade-by-Barter men.

9.—This then is how we stand to-day. The world has no universal medium of currency. Until 1873 the world had a common medium of exchange through the channel of the great Exchange Offices, kept open for us in Europe by the Countries of the Latin Union and the United States. Previous to 1873, while these great Exchange Offices were open, which provided the world with a double standard of currency, the relative values of gold and silver remained for all practical purposes stationary. Since 1873, the one half of the world in transacting business with the other half, has had to return to the primitive state of barter. The net result is that

gold has greatly increased in value while silver has greatly decreased in value, and violent disturbances in trade have resulted. Here let me state what I meant above, when I said that the increased out-put of silver had "accentuated the fall" in its value. Those who call themselves "Monometallists," but who would more fitly be termed "Trade-by-barter Men," endeavour to maintain the existing position of things, by stating that the fall that has taken place in silver since 1873, when the interchangeable double standard of currency came to an end, is due to the increased out-put of silver. Now, this argument would naturally carry great weight, were it not for the fact, that precisely the same thing happened in the case of gold at the time of the Australian gold discoveries, yet not the slightest tremor was then felt in the monetary markets of the world, and the interchange of gold and silver went on unchanged at the old rates. Why then, we may fairly ask the Monometallists or "Barterers," should it be possible for the out-put of gold to double in the "fifties," without up-setting the established ratio of Exchange, yet that it should not be possible for the ratio to be maintained when the out-put of silver doubles. The two cases are precisely similar and in so far as they differ at all, differ in that the increased out-put of gold in the "fifties," was relatively somewhat larger than the corresponding increase in the out-put of silver which has taken place in recent years. Had the great Exchange Offices of Europe remained open, instead of closing in 1873, it is quite possible, judging by what occurred when the out-put of gold doubled in the "fifties," that the recent increase in the out-put of silver would not have disturbed the established ratio of value. But when once the double standard of currency was given up and the established ratio of exchange abandoned, silver became to a great extent discredited as a medium of currency, and this alone would account for an enormous fall in its purchasing power. No wonder then, that an increasing out-put of the metal was utilized by the dealers in gold to still further depreciate its market value.

If the doubled out-put of gold in the "fifties" did not disturb the fixed ratio, why should the doubled out-put of silver be fatal to a fixed ratio?

10.—Permit me to point out some of the classes who are interested in maintaining the present greatly enhanced value of gold, due to the loss of an universal currency through the demonetization of silver. Speaking generally, all the Public Officials up and down the country are against the remonetization of silver, and it is natural. An Official in a Government office, earning a salary of £300 a year twenty years ago, finds the same salary go as far to day in purchasing power as £400 would then. The general fall in prices has added very largely to his income, though no one perceives that it is raised. But all the producers find their incomes correspondingly reduced, for the fall in the prices of their commodities leaves them a lessened, and sometimes no profit. Bankers, are mostly against the remonetization of silver. Why is this? The answer may be found in the balance sheets they issue from time to time. As a rule, banks lend out to their customers, one half of the money deposited with them. So far as this portion of their assets is concerned, it matters little to them whether the world has a universal currency or not. As regards the other moiety of their assets, bankers have benefited by the rise in the value of gold. They are large holders of consols, municipal and colonial stocks, and railway debentures. All these have risen largely in value owing to the increased purchasing power of gold. Railway Companies are against the remonetization of silver. Passengers pay the same fares to-day that they paid 20 years ago, but the £1 of to-day will purchase as much as 30s. did 20 years back. Railway Stocks steadily increase in value, but the companies do not lower their fares as the value of gold enhances. Just as the salaried classes have benefited, so have the leisured classes (other than those dependent upon agricultural land) who live upon their accumulated savings. Every £3 that they received as interest 30 years ago, purchases for them to-day more than £4 would then. But why should this tax be levied in favour of the non-producers at the expense of the producers.

Who are benefited by the rise in the value of gold: Public Officials, Bankers, Railway Companies.

11.—Who are suffering from the loss of an universal currency consequent upon the demonetization of silver? Here let me for one moment point out what has been happening in silver countries, such as India and Russia. In 1873 the average daily wage of an Indian employed in agriculture was one-sixth of a rupee, or 4d. A rupee was then worth 2s. So that with £1 in gold, one could obtain the labour of 60 men for one day. To-day the value of a rupee has sunk from 2s. to 1s. in gold. The Indian labour is still paid one-sixth of a rupee for a day's wage, so that £1 in gold will now obtain the labour of 120 men for one day in India. The effect of the fall in silver is thus to lower the rate of wages and the cost of production in that country. In Russia precisely the same thing has occurred. The result is that corn coming from silver countries can, so far as labour is concerned, be produced at half the cost needed to produce the same amount 20 years ago. The effect so far as English Agriculture is concerned, is much the same as if the Farmers were called upon to pay the labourers—whom they employed in 1873 for 2s. a day—the sum of 4s. a day now; though the result, unfortunately, is not the same to the labourers. The low price of wheat, due to the enhanced value of gold and the fall of silver, injures the agriculturalist, but benefits the brewer, the baker and the biscuit maker. The baker and the biscuit maker buy materials at lower prices, but penny buns are still penny buns. It is notorious that the brewing interest have never had more thriving years than they have had recently. In the *Times* of 22nd February, 1894, in the money article, it was written, "A kind of superstition has grown up that silver regulates wheat. If all wheat were grown in silver standard countries there would be more to be said in favour of the theory." It is more than a superstition that has grown up; it is only too obvious that the price of silver regulates the price of wheat. It is indisputable that this country imports considerably more wheat from silver-using countries, whose revenues are collected in silver, than from countries whose revenues are collected in gold and silver; and also that importers of wheat who pay for it in silver, or the equivalent of silver, and sell it for gold, or the equivalent of gold, can lower their selling price and still make a profit, according to the rise in the premium of gold, or, what is the same thing, the fall of the gold value of silver. In the *Daily News* of 5th March, 1894, it was stated in the money article that the low price of wheat was due, not to the fall in silver, but to the large amount of wheat grown, but surely it does not need much acumen to perceive, that if the fall in the price of silver lowers wages in the silver countries, a natural result is the greater employment of labour and a larger consequent yield of wheat. The depreciation of silver due to its demonetization daily increases the financial burdens of India and lessens the purchasing power of the Indian native, and the result is, that Lancashire trade and British Agriculture languishes. The enhanced value of gold has moreover largely increased the indebtedness of the Colonies to the mother country. Australia in the past has borrowed £200,000,000 in the London market, but owing to the increased value of gold, and the consequent fall in prices of other commodities, Australia will have to send us in liquidation of that debt, commodities which would have realized at least £250,000,000 at the time she contracted her loans. This additional tax upon Australia of £50,000,000 in order to liquidate her debt, goes direct into the pockets of a comparatively small class of private persons. But even were it a loan from the United Kingdom to Australia, I doubt whether it would be right or just to throw our weight into the scale against the remonetization of silver, simply because its demonetization had given us the turn of the market as against our borrowers, and enabled us to gain £50,000,000 upon our loans to a single group of Colonies.

Who are suffering? India. The Agriculturalists. Silver and wheat. Over-production result of low price of silver. Producers generally. The Colonies.

The United States' silver policy not a fixed ratio, yet used to prejudice an universal currency.

12.—Much has been made of the Silver Question in the United States by those who are directly interested in maintaining the enhanced value given to gold owing to the demonetization of silver. But the policy followed by the United States in making annual purchases of a given amount of silver, has nothing whatever to do with the question of a fixed ratio of Exchange. The United States' policy stands quite apart from the question of the re-establishment of an International currency based upon a fixed ratio of Exchange between the two metals. The United States have pursued an unwise course in making these fixed annual purchases of silver, and monometallists have, without scruple, used this unwise action of the United States to give colour and apparent weight to their opinions regarding a double standard.

True principles never subject to geographical limits.

13.—A true policy is never limited by geographical area. The policy of "Free Trade," for example, is subject to no geographical limitations. "Protection" is equally indefensible, whether invoked between the United Kingdom and Russia, between England and Scotland, or between Hampstead and Hackney. A true policy knows no territorial limits. The policy of an universal medium of Exchange rests upon exactly the same basis. That the two halves of the world should continue to transact their vast International trade without a common medium of currency is as equally foolish and unwise, as it would be for Scotland and England to have two different standards of circulation, non-interchangeable except at varying and uncertain rates over the counter of a bullion merchant. If Scotland and England were placed in such a position, and it were found impracticable to adopt for both of them a single standard of currency, we should very quickly be told that the principle that "a single standard of currency is better than a double standard" does not and cannot apply where a single standard is not available, and that although, where there is a choice, a single standard is undoubtedly better than a double standard, where there is no such choice, a double standard is undoubtedly preferable to none at all.

The United Kingdom cannot expect other countries to do her work unaided.

14.—Since the time when the United Kingdom resumed specie payments in 1816, we have had gold, and gold only as our standard of currency in this country. How is it then that with our vast dependency of India, and our enormous trade with China, Russia, and other silver-using countries, we have not, until lately, felt the difficulties and disturbances to trade arising from our having a single medium of currency. For the reason already given, that France and the Latin Union, down to 1873, provided great Exchange Offices for our use. These countries have felt the evil resulting from the demonetization of silver, and they have entered into conferences with us concerning it in 1878, in 1881, and again in 1893. They very fairly say, "Why should we act alone in this matter when the United Kingdom, with her vast Indian possession and her extensive trade in silver-using countries, is at least as much, if not more, interested than we are?" But these conferences have been held to no purpose, because England sent delegates to them who would have nothing to say to a double standard of circulation. If I might venture to forecast, I should say that were the Western Nations to agree to re-establish a fixed exchangeable ratio between gold and silver, it would be found that that ratio could be fixed somewhere within the limits of 20 and 25 to 1. We could not return now to the old ratio of 15½ to 1, although, had that ratio never been abandoned, it might have been easy to maintain it, as—in an inverse way—was the case when the out-put of gold doubled in the "fifties." The very fact of the Western Nations making silver once more a standard of currency would at once raise its market value so as to bring its current market value within the limits mentioned. Periodical conferences of the representatives of the consenting Nations, held at intervals of 5 or 7 years, would revise from time to time, if needful, with fair notice to the merchants of the world, the exchange ratio of gold and silver.

The fixing of a ratio of exchange.

"Trade by Barter better than a double standard" an unauthorised gloss.

15.—To sum up, because Economists have laid down the principle—a principle to which no one should take exception—that a "single standard of currency is better than a double standard," we are asked to assent to the further proposition that no universal currency is better than an universal currency based upon a double standard—that trade by barter is better than trade based upon a double standard of currency. I venture to think that this development of the first principle, true enough in itself, is absolutely preposterous, and that were the Economists, who have endorsed the first principle, with us to-day, they would emphatically condemn the second principle as an unauthorized deduction from their premises and utterly repugnant to the best principles of Political Economy. No Economist, so far as I am aware, has ever put forward or approved the principle that "No universal currency is better than a currency based upon a double standard—in other words—that barter is better than a double standard," nor do I think that anyone holding the position of Mr. Mill or Mr. Fawcett would readily endorse such an extraordinary proposition.

Not a question between 'a single standard and a double standard,' but between 'a double standard and barter.'

16.—You will observe that I have not once made use of the term "bi-metallism," and for this reason. It seems to me sadly ill-chosen. No one desires a double standard of currency were one standard possible. We are all mono-metallists in theory. The ways part when it becomes a question whether the world is to carry on its trade by means of currency or by means of barter. We who are for a common currency accept a double standard, because a single standard is obviously unattainable. We are for a universal currency; our opponents would compel us to trade by barter. In concluding, may I ask why it should be thought fit that the United Kingdom should be represented at International Currency Conferences by delegates who are directly interested in maintaining the enhanced value of gold. Would it not be better that the producing classes of this country, who are suffering so severely from the disturbances in trade due to violent changes in the values of gold and silver, should send their representatives to any future conference? The longer the United Kingdom holds aloof, and refuses to unite with other countries in giving once more to the world an universal currency, the worse will it be for the producing classes of this country.

I am, my Lord,

Your very faithful Servant,

E. R. PEARCE EDGCUMBE.

Somerleigh Court,
Dorchester,
13th March, 1894.

Henry Ling, Printer, Dorchester.

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TITLE